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Joseph F. Francois, *Acting Director*

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Editor, *International Economic Review*
Trade Reports Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 205-3255

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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Latest statistics confirm expectations for a moderately paced recovery of the U.S. economy in 1992. The real Gross Domestic Product (GDP)—the output of goods and services produced in the United States in 1987 prices—grew at an annual rate of 2.7 percent in the first quarter of 1992. Real growth was the highest since the fourth quarter of 1988, when this measure stood at 3.9 percent. Consumer spending adjusted for inflation, representing about two-thirds of real GDP, rose by 5.4 percent. The index of leading indicators, a gauge of future economic activity, rose by 0.4 percent in April, the third consecutive monthly gain.

The figures for May were less encouraging. Although the Nation's total industrial output rose by 0.6 percent, the fourth consecutive monthly increase, orders for durable goods fell by 2.4 percent. After declining to 7.2 percent in April, the unemployment rate rose to 7.5 percent in May. The rise reflected an increase in the number of officially registered job seekers, including students seeking summer employment and workers who, encouraged by improved growth prospects, resumed their search for employment. Inflation apparently remains under control. The average price level rose by only 0.1 percent in May and by 3.0 percent in the 12-month period ending May 1992.

The latest survey by the U.S. Department of Commerce shows that businesses plan to increase their real capital spending on new plant and equipment by 6.0 percent in 1992. However, the survey also shows that manufacturing businesses expect to reduce real capital spending by 2.4 percent in 1992. Industries manufacturing durable products plan to cut capital spending by 3.6 percent, and industries manufacturing nondurable products plan a 1.5-percent cut. Such reductions could have a retarding effect on growth and employment in this sector and perhaps slow the recovery forecast for the remainder of 1992.

Economic Growth

The 2.7-percent increase in U.S. real GDP in the first quarter of 1992 was an improvement from an increase of 0.4 percent in the fourth quarter of 1991. Real GDP in the United States declined by 0.7 percent for all of 1991, the first annual decline since 1982.

The annualized rate of real economic growth in the first quarter of 1992 was -2.5 percent in the United Kingdom, 4.5 percent in France, and 7.3 percent in Germany. The annualized rate of real economic growth in the fourth quarter of 1991 was -0.8 percent in Canada, 0.1 percent in Japan, and 1.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production increased in nominal terms by 0.6 percent in May, following a rise of 0.5 percent in April and 0.4 percent in March. The May increase was due to gains in the production of motor vehicles, parts, and related materials. Capacity utilization in manufacturing, mining, and utilities increased to 79.0 percent in May from 78.7 percent in April 1992. Manufacturing production climbed by 0.7 percent in May, and mining output decreased by 0.3 percent. Output of durable goods rose by 1.2 percent in May, and the output of nondurable goods edged up by 0.1 percent. Total industrial output in May 1992 was 2.2-percent higher than in May 1991.

Other major industrial countries reported the following annual growth rates of industrial production: for the year ending April 1992, Japan reported a decrease of 5.5 percent, and Germany reported an increase of 0.7 percent. For the year ending March 1992, Canada reported an increase of 1.3 percent, France an increase of 2.5 percent, the United Kingdom a decrease of 2.2 percent, and Italy a decrease of 0.5 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose by 0.1 percent in May after rising by 0.3 percent in April 1992. The CPI rose by 3.0 percent during the 12 months ending May 1992.

During the 1-year period ending May 1992, prices increased by 5.7 percent in Italy and by 4.5 percent in Germany. During the 1-year period ending April 1992, consumer prices increased by 1.7 percent in Canada, by 3.1 percent in France, by 4.3 percent in the United Kingdom, and by 2.4 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States increased to 7.5 percent in May from 7.2 percent in April and 7.3 percent in March. In May 1992, unemployment was 6.5 percent in Germany and 11.2 percent in Canada. In April 1992, unemployment was 9.5 percent in the United Kingdom, 2.0 percent in Japan, 10.0 percent in France, and 10.9 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasts point to a moderate rebound of real economic growth in the United States during the second half of 1992 and the first half of 1993. Table 1 shows macroeconomic projections for the U.S. economy for April 1992-June 1993, by four major fore-

casters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

Several factors appear to be working in favor of improved growth prospects in the remainder of 1992 and in the first half of 1993. Low interest and inflation rates are expected to stimulate spending on capital goods. The growth of U.S. exports should regain momentum as a result of a moderation in the foreign value of the dollar and the anticipated resumption of global economic growth. A buildup of the currently low levels of business inventories should generate new rounds of production that could propel the recovery in the industrial sector. All these factors combined should increase employment and incomes, which in turn should boost consumer spending.

Nevertheless, the 1992 planned reduction of business spending in the manufacturing sector could weaken the recovery. The average of the forecasts points to a slight decline in the unemployment rate in the second half of 1992 and a larger decline in the first half of 1993. Inflation (as measured by the GDP deflator) is expected to rise in the second half of 1992, and then slow down in the first half of 1993.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, April 1992-June 1993

Quarter	*UCLA Business Forecasting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 forecasts*
			GDP current dollars		
1992					
April-June	2.1	6.5	6.0	5.9	5.1
July-September	6.0	6.7	6.6	6.9	6.6
October-December	6.8	6.7	6.1	7.2	6.7
1993					
January-March	7.3	6.9	7.2	6.1	6.9
April-June	6.6	6.4	5.8	5.4	6.1
			GDP constant (1987) dollars		
1992					
April-June	1.8	3.3	2.8	2.8	2.7
July-September	2.7	3.1	3.9	3.3	3.3
October-December	3.0	3.1	3.2	3.0	3.1
1993					
January-March	3.6	3.0	3.6	3.4	3.4
April-June	3.5	2.9	2.7	3.0	3.0
			GDP deflator index		
1992					
April-June	0.3	3.0	3.1	3.0	2.4
July-September	3.2	3.6	2.6	3.4	3.2
October-December	3.7	3.5	2.8	4.0	3.5
1993					
January-March	3.6	3.8	3.4	2.5	3.3
April-June	3.0	3.4	3.0	2.3	3.0
			Unemployment, average rate		
1992					
April-June	7.4	7.2	7.3	7.3	7.3
July-September	7.5	7.1	7.2	7.2	7.3
October-December	7.4	7.0	7.0	7.0	7.1
1993					
January-March	7.3	6.8	6.8	6.8	6.9
April-June	7.1	6.6	6.7	6.6	6.8

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: June 1992.

Source: Compiled from data provided by The Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased from $5.6 billion in March to $7.0 billion in April 1992. A $700 million decline in exports and a like increase in imports accounted for the worsening in the monthly balance. Exports declined to $36.4 billion in April and imports increased to $43.4 billion. The trade deficit increased to $21.6 billion in January-April 1992 from $20.8 billion in the corresponding period of 1991. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

The April 1992 deficit was 34.6-percent higher than the $5.2 billion average monthly deficit registered in the previous 12-month period and 62.8-percent higher than the $4.3 billion deficit registered in April 1991. When oil is excluded, the April 1992 merchandise trade deficit increased by $910 million from that of the previous month.

Nominal export changes and trade balances in April 1992 for specified major commodity sectors are shown in table 3. Iron and steel mill products and organic chemicals were the only sectors that showed export increases from March to April 1992. In January-April 1992, the largest surplus was recorded in airplanes. The U.S. agricultural trade surplus decreased from $1.7 billion in March to $1.6 billion in April 1992. The oil import bill increased from $2.5 billion to $2.8 billion over the period.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4. In April 1992, the United States registered a decline in its bilateral merchandise trade deficit with the Organization of Petroleum Exporting Countries (OPEC) and increased deficits with Japan, Canada, Germany, EFTA, the Newly Industrializing Countries (NICs),[1] and China. The U.S. deficit with Japan increased by $225 million. The U.S. trade surplus with the EC and Western Europe as a whole declined markedly. From January-April 1991 to the corresponding period in 1992, the United States registered declines in its bilateral trade deficits with OPEC and Germany, and showed increases in its deficits with Japan, Canada, EFTA, the NICs, and China. The U.S. trade surpluses with the EC and Western Europe declined over this period, but they increased in trade with Mexico.

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Table 2
U.S. merchandise trade, seasonally adjusted

Item	*Exports* April 1992	*Exports* March 1992	*Imports* April 1992	*Imports* March 1992	*Trade balance* April 1992	*Trade balance* March 1992
Current dollars—						
Including oil	36.4	37.1	43.4	42.7	-7.0	-5.6
Excluding oil	35.8	36.6	39.4	39.2	-3.5	-2.6
1987 dollars	34.4	34.8	40.8	40.2	-6.5	-5.4
Three-month-moving average	37.0	36.7	42.3	41.6	-5.3	-4.9
Advanced-technology products (not seasonally adjusted)	8.3	10.1	5.7	6.0	+2.7	+4.1

Source: U.S. Department of Commerce News, FT 900, June 1992.

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, January 1991-March 1992

Sector	Exports		Change			
	January-April 1992	April 1992	January-April 1992 over January-April 1991	April 1992 over March 1992	Share of total January-April 1992	Trade balances January-April 1992
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	8.8	2.2	0	-12.7	6.0	-1.76
Airplanes	10.0	2.2	41.4	-25.9	6.7	8.72
Airplane parts	3.1	0.8	-4.3	-6.1	2.1	1.94
Electrical machinery	10.4	2.6	4.6	-4.4	7.0	-2.03
General industrial machinery	6.2	1.6	12.3	-3.6	4.2	1.03
Iron & steel mill products	1.3	0.3	-8.1	6.5	0.8	-1.53
Inorganic chemicals	1.3	0.3	-1.5	0	0.9	0.10
Organic chemicals	3.7	1.0	-10.9	3.1	2.5	0.67
Power-generating machinery	5.8	1.5	4.9	-4.6	3.9	0.71
Scientific instruments	4.8	1.2	8.6	-8.6	3.2	2.43
Specialized industrial machinery	5.4	1.4	-1.3	-2.1	3.7	1.67
Telecommunications	3.4	0.8	12.1	-12.5	2.3	-4.19
Textile yarns, fabrics and articles	1.9	0.5	9.7	-2.0	1.3	-0.64
Vehicle parts	5.5	1.4	26.1	-6.0	3.7	0.30
Other manufactured goods[1]	9.1	2.3	17.5	-7.0	6.2	-1.34
Manufactured exports not included above	34.3	9.0	6.8	-2.2	23.1	-26.45
Total manufactures	114.9	29.0	8.6	-6.7	77.5	-20.45
Agriculture	14.7	3.6	10.5	-1.4	9.9	6.55
Other exports	18.6	4.5	-5.9	-10.1	12.6	-2.87
Total	148.3	37.2	6.7	-6.6	100.0	-16.72

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to total shown.

Source: U.S. Department of Commerce News, FT 900, June 1992.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1991-April 1992

Area or country	April 1992	March 1992	April 1991	January-April 1992	January-April 1991
	(Billion dollars)				
Japan	-4.21	-3.90	-3.25	-14.98	-13.61
Canada	-0.64	-0.47	-0.26	-2.02	-1.6[illegible]
Germany	-0.72	-0.35	+0.01	-1.36	-1.38
EC	+0.91	+2.45	+2.12	+7.72	+7.86
Western Europe	+0.61	+2.27	+2.21	+7.20	+8.01
European Free trade Association(EFTA)	-0.40	-0.22	-0.05	-0.85	-0.29
NICs	-0.92	-0.76	-0.76	-3.62	-2.51
USSR (former)	+0.23	+0.19	+0.24	+0.97	+1.12
China	-1.09	-0.80	-0.66	-4.52	-2.85
Mexico	+0.58	+0.59	+0.08	+2.33	+0.11
OPEC	-0.30	-0.42	-0.88	-1.82	-4.94
Total trade balance	-5.61	-3.47	-3.29	-16.72	-16.03

Source: U.S. Department of Commerce News, FT 900, June 1992.

INTERNATIONAL TRADE DEVELOPMENTS

What is the Commonwealth of Independent States?

The Soviet Union ceased to exist as a nation on January 1, 1992. The country's demise was accelerated by its collapsing economy and was further hurried along by the establishment of the Commonwealth of Independent States (CIS) on December 8, 1991, in Minsk, Byelarus. All of the former republics except the Baltic nations and Georgia are members of the CIS. Member states are Azerbaijan, Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine. The CIS was created, among other things, to harmonize economic policies among its membership and to provide Western nations with some assurance that the former Soviet Union's formidable nuclear arsenal was under effective joint control. But the CIS stands on unsteady feet as its members assert their newly independent status and major disagreements on all fronts—economic, political, and military—keep cropping up. This article explains the foundation for the CIS and some of the problems it currently faces.

To understand the role of the CIS it is first necessary to understand the events leading to its creation. The August 1991 coup d'etat against the administration of President Mikhail Gorbachev sped up the transfer of power to the republics. Following the defeat of the coup, then President Gorbachev acknowledged the sovereignty of the 3 Baltic nations (Estonia, Latvia, and Lithuania) and tried to get the remaining 12 republics to reach a consensus on a decentralized structure that would preserve the union, but would allow the republics full responsibility for their internal affairs. Under Gorbachev's plan, a council of republican presidents would have responsibility for union-wide issues. Attempts were also made to agree on an economic accord among the republics that would establish federal institutions for coordinating economic policies. However, Gorbachev's efforts were quickly overtaken by political events. Following the overwhelming popular vote in Ukraine on December 1 for full independence and statehood, the republics moved to disband the central authority altogether.[2]

The CIS is not a state or a confederation; it is a voluntary community of fully independent states bound testily together by the pervasive remnants of decades of central planning. Traditionally, economic ties among the former republics were characterized by a high degree of regional specialization and interdependence. This was done purposely by planners whose economic decisions created large, single factory monopolies across the union. Each factory typically supplied the entire country with a particular product. With such a high degree of interdependence, analysts agree that creation of the CIS was a compromise to forestall chaos. As the country dissolved, the CIS was quickly assembled to address the Soviet legacy and to moderate the process of phasing out the old union.

The December 8 "Agreement on the Creation of a Commonwealth of Independent States," which established the CIS, called for a number of cooperation treaties in various areas, including political issues, health care, environmental protection, and science. The December 8 declaration also called for full coordination of economic policy and preservation of a "ruble zone."

Trade was also singled out as an important area for cooperation. Intraregional trade began to decline in 1988, and that drop accelerated as the central distribution system deteriorated and central authority eroded. In trade with other countries, calculations by the U.S. Department of Commerce (based on data from the Soviet State Statistical Committee) show that the total volume of CIS foreign trade in 1991 was about $90.6 billion ($47.1 billion in exports; and $43.5 billion in imports).[3] Trade turnover for the year was 39-percent lower than in 1990, with reductions of 33 percent in exports and 44 percent in imports. Russia experienced the smallest decline in exports, and Ukraine, the largest decline. Imports fell the least to Armenia and the most to Byelarus. Trade during the year was characterized by a shifting away from former East bloc countries and toward Western developed countries. On February 14, 1992, CIS-members signed the "Agreement on Regulation of Trade and Economic Relations between the States of the Commonwealth of Independent States," to create a common economic area on the basis of free movement of labor, goods, services, and capital, and a harmonization of legislation to promote this common market.

Thus far, however, the CIS has not been effective in coordinating the economic policies of its members. Each pursues its own vision of economic reform. At this writing, the goal of a common economic market appears nebulous, as each CIS member restricts exports of certain food and consumer goods in short supply to other CIS states. The number of new export restrictions is increasing rapidly. Nor is it likely the CIS will, as stated in its charter, have a single currency with a single central bank. Indeed, movement by CIS members toward monetary and fiscal separation appears unstoppable.

[2] On December 17, 1991, Soviet President Gorbachev agreed that the Soviet Union would cease to exist as a nation as of January 1, 1992, and that existing Soviet institutions would be either phased out or transferred to the CIS. Gorbachev resigned as president on December 25; the Supreme Soviet dissolved itself the next day.

[3] Commerce notes that the accuracy of data from the committee has long been questioned. The figures are provided here only as indicators of relative trade activity.

Moldova and Ukraine have expressed their definite intentions to introduce their own currencies. Byelarus, Kazakhstan, and Kyrgyzstan have indicated they may introduce their own currencies after an unspecified transition period.

Another problem the CIS faces is that an important glue that has held the former republics together for decades is rapidly coming unstuck. In addition to a high level of economic interdependence, the former republics still have in common a high level of dependence on subsidized oil from Russia. But cheap oil is now a thing of the past, not only because of Russia's internal pressures for price increases, but also because of its continuing decline in oil production. As Russia begins to divert its oil exports to only those customers able to pay in hard currency, it is likely that less will be available for CIS members.

While acknowledging that it is the prerogative of a sovereign state to pursue its own course, the International Monetary Fund (IMF) has suggested the need for a coordinating institution that will help ease the new states' path to reform. This is particularly true now, in the early stages of independence when bilateral disputes on one level—for example, on monetary arrangements can lead to unnecessary disruptions in other areas, such as trade. Given the high level of interdependence among the former republics, effective cooperation in economic policy, foreign policy, defense, and other areas may be vital for their successful independent statehood. The IMF, now dealing with the 15 separate countries that succeeded the former Soviet Union, noted that "successful transition of these economies would be made easier by maintenance of a close economic relationship between the individual republics."

It is not assured, however, that the CIS will become the instrument that helps to maintain that economic relationship. At the time of this writing, it is uncertain whether or not the organization will become a permanent institution or even if it will survive its infancy. As noted in a recent Economist Intelligence Unit, *European Trends* report, the CIS "has been subjected to severe pressure and although it still functions, it is creaking under the strain." CIS meetings have already been marked by profound disagreements on a number of issues, including economic reform questions, and conflicting perceptions by its members on the organization's future.

China Steps up Trade Reforms

Since the beginning of 1992, China has adopted or announced plans to bring its foreign trade regime into closer compliance with international standards and to reduce its import restrictions. On January 1, 1992, it implemented the Harmonized Commodity Description and Coding System, commonly referred to as the HS, now used by the United States and some 60 other countries in reporting exports and imports. At the same time, it lowered tariffs on 225 products. On April 1, China eliminated its import regulatory tax, a separate surcharge imposed over and above the applicable tariffs. It has also reportedly promised to eliminate "very soon" 16 of 53 product categories now subject to import licensing and to completely abolish this complex and highly restrictive system within 2 to 3 years. Moreover, to address the charge that its trade system is almost totally lacking in transparency, China published 47 of an unknown number of internal, or secret, trade regulations during the first 3 months of the year, and has pledged to continue publishing both existing and new laws on trade and investment.

To regain membership in the General Agreement on Tariffs and Trade (GATT) is China's primary reason for undertaking these new reforms and reversing a trend toward increasingly restrictive trade controls that started in 1988. China applied for readmission to the GATT in 1986. (It was an original contracting party in 1947 but withdrew in 1950 after the Communists came to power.) However, following the military crackdown in Tiananmen Square in June 1989, no further meetings of the GATT working party on China's membership were held until February of this year. At that meeting the working party welcomed China's reform efforts, but neither the United States nor the European Community (EC) would agree to an immediate drafting of a protocol of accession. The meeting closed with an agreement to continue the discussion of China's GATT application in the "near future."

Chinese Government officials have repeatedly stated that their main motivation for rejoining the GATT is the automatic most-favored-nation (MFN) status that China would enjoy as a GATT member in its trade relations with other GATT members. In particular, China wants to remove itself from the now-annual U.S. threat that the MFN tariff treatment it was extended in 1980 may be withdrawn or made subject to its meeting certain human rights and other conditions. However, GATT membership alone would not necessarily guarantee this result, as demonstrated by the experiences of Poland and Romania, both GATT-member countries. The United States revoked Poland's "permanent" MFN status in 1982. Although this U.S. action was taken in response to the Polish Government's suppression of the Solidarity movement, it was justified on the basis of Poland's failure to meet certain GATT commitments. In addition, as a result of the emigration and other human rights violations of the Ceausescu regime, Romania's MFN status was suspended when its Jackson-Vanik waiver, extended annually at the President's discretion under the Trade Act of 1974, came up for annual renewal in 1988. The United States restored Poland's MFN status in 1987, but Romania's status has not been restored. As a nonmarket economy country, China's MFN status would remain subject to the review and renewal provisions of the Jackson-Vanik amendment even after accession to the GATT. Membership in the GATT could be expected, however, to make China less susceptible to the annual controversy now surrounding its status.

China's readmission to the GATT would also make it eligible, as a developing country, for preferential tariff treatment under the U.S. Generalized System of Preferences (GSP). The United States may not be willing to extend GSP to China, however, unless the program strictly limits or excludes a number of commodities produced by domestic industries already feeling competition from Chinese goods, such as textiles, apparel, footwear, small electrical appliances, and toys. China now enjoys some GSP benefits under the laws of other GATT members, including most of the EC countries.

Although China has repeatedly maintained that re-entry into the GATT is its primary objective in moving ahead with trade reforms at this time, the reforms are also steps toward meeting U.S. demands under a market-access investigation initiated in October 1991 under section 301 of the Trade Act of 1974. The focus of the investigation is Chinese import barriers that most affect major U.S. export interests. However, these barriers are also inconsistent with the multilateral rules and trade liberalization principles that would apply if China were a member of GATT. The barriers include the lack of clear, publicly available regulations on trade and investment; the use of import bans and quantitative restrictions (quotas); import-licensing requirements; and sanitary and technical barriers to trade. According to Assistant United States Trade Representative Joseph Massey, the chief negotiator in bilateral talks on market access, if China meets U.S. demands in these four areas, it would be, from the U.S. perspective, "well-placed to enter GATT."

Following the latest round of bilateral talks on market access, held on May 21-22, 1992, U.S. negotiators reported that important "building blocks" for an agreement had been secured for the first time. However, no resolution was reached on any of the four major barriers under investigation. If the talks fail to produce an agreement by an October 10 deadline, U.S. trade sanctions in the form of higher tariffs could be imposed on several billion dollars' worth of imports from China.

Prospects of Direct Participation in the Mexican Petroleum Industry by NAFTA Partners are now Remote

Since the beginning of formal talks on the North-American Free Trade Agreement (NAFTA), Mexico has categorically stated that none of its constitutional restrictions concerning petroleum are negotiable. In the course of the negotiations Mexico continued to refuse to discuss any proposals that would give U.S. or Canadian companies access to a share of production. As a result, NAFTA negotiators focused on issues of trade in oil and oil products. In June 1992, United States Trade Representative Carla Hills declared that she considered Mexico's constitutional prohibition on foreign ownership of petroleum to be off the negotiating table.

Thus, hope has faded that the NAFTA will open Mexican oil production to equity participation by U.S. and Canadian companies in the foreseeable future. This disappoints not only these investors but also those Mexicans who are deeply concerned about the inefficiency, stagnation, and poor safety and environmental standards of their petroleum industry. It also upsets everyone who believes that the integration of North-American energy markets would provide a great opportunity to use the resources of the continent more effectively.

The fundamental obstacle to foreign entry into the Mexican petroleum sector is the Mexican Constitution of 1917, which reserves subsoil rights exclusively to Mexican citizens, and prohibits foreign participation in "strategic" sectors of the economy, including oil exploration, refinement and pipelines. Between 1917 and 1938, these constitutional provisions were not applied to foreign oil companies already established in Mexico. In 1938, however, President Lazaro Cardenas expropriated the assets of these companies and consolidated their holdings under Petroleos Mexicanos (PEMEX), a national monopoly owned and controlled entirely by the Mexican Government. The expropriation was the last major act of the Mexican revolution, and the nationalized petroleum industry became the immutable symbol of Mexico's sovereignty.

The discovery of major offshore oil reserves in 1976 in the Bay of Campeche transformed PEMEX into a producer and exporter of global significance. Since 1982, however, Mexico's foreign debt crisis, coupled with plummeting petroleum prices, necessitated deep cuts in allocations for PEMEX investments. This left PEMEX severely undercapitalized, which slowed down the exploration and development of Mexican oil resources. It also led to poor maintenance and obsolescence of the refineries, and to inadequate infrastructure for transporting petroleum. The productivity of the Mexican oil industry is now believed to be considerably below that of Venezuela's. (Venezuela is Mexico's Latin American competitor for the U.S. energy market. See, *IER*, March 1991).

In addition, PEMEX, which enjoys a monopoly in all aspects of oil and gas production and marketing, has been plagued by corruption and accidents. The most notable recent accident was the pipeline rupture that caused a series of underground explosions in Guadalajara this April, killing 236 people and injuring more than 1,500. The long isolation of PEMEX from international developments in oil production and safety technologies, and negligence by top officials—many of them political appointees—are blamed.

There was some hope that the Guadalajara disaster would leave Mexico no choice but to open up its oil industry to foreign entrepreneurs who would provide capital and technology, and improve management and safety practices. However, it appears now that Mexico will not relent in its resistance to foreign investment in oil exploration and development. Mexican

public opinion is still very much against U.S. participation, on grounds that it would give the United States undue political and economic influence in Mexico.

It is not the case, however, that Mexicans underestimate their oil industry's dire need of capital and state-of-the-art technology. According to a March 1992 report by the General Accounting Office (GAO), PEMEX calculates that it will need to raise $20 billion over a 5-year period to meet the goals of Mexico's National Energy Modernization Program, issued in 1990. Despite their constitution's limitations on foreign equity participation, Mexicans believe that they can raise the necessary capital and acquire the needed technology and management guidance by providing opportunities for foreigners short of direct investment.

A major instrument Mexico employs for raising foreign capital is placing bonds on international markets. The problem is that these bonds also increase Mexico's $100-billion foreign debt, and they risk reigniting inflation. Mexico also counts on financial assistance from foreign governments or international institutions for its petroleum industry. For the acquisition of modern technology, Mexico plans to rely on service and technical assistance contracts with foreign providers, and on sales contracts for equipment and other supplies, sometimes combined with financial assistance. For example, the U.S. Export-Import Bank recently agreed to guarantee $1.3 billion in loans to PEMEX for the purchase of U.S. oil and gas equipment and related services. According to the GAO report, this program could eventually expand into a $6 billion U.S. loan guarantee.

Many analysts are skeptical about Mexico's ability to raise the capital it needs for modernizing its oil industry without foreign direct investment. In particular, U.S. Government officials and representatives of the U.S. oil and gas industry are doubtful that the flow of foreign capital and technology through the channels favored by Mexico will be comparable to what could be attracted by a Mexican oil industry open to foreign investment. When interviewed by GAO, U.S. companies expressed reluctance to provide their expertise on a purely contractual basis, preferring equity participation and a potential return commensurate with risks involved.

In addition to exploration and development, U.S. investors are also interested in participating in oil refining, transportation, petrochemicals production, and marketing. Although Mexico reportedly showed willingness to allow foreign participation in some of these areas under certain conditions, U.S. investors have pressed for equal treatment with Mexican nationals.

Denying direct participation to partners in oil production also stands to deprive Mexico's industry of the superior management experience of U.S. and Canadian companies. Mexico recognizes the need to overhaul the operations of PEMEX, and is now implementing a program that includes streamlining administrative procedures, eliminating waste, and reducing the work force. To benefit from foreign management experience, Mexicans are hiring foreign service contractors and consulting firms. Nonetheless, according to some views, the upgrading of PEMEX management might be seriously hampered by the resistance of certain management groups within PEMEX itself, and also by the Mexican Petroleum Workers' Union.

Observers cannot help noticing that Mexico exhibits less flexibility in this matter than some other countries with similarly large stakes in their petroleum industry. Unlike Mexico, Venezuela—and more recently Russia—have already opened their oil industries to foreign participation.

The European Bank for Reconstruction and Development is Up and Running, but Critics Question Its Usefulness

The London-based European Bank for Reconstruction and Development (EBRD) has recently released data on its first year performance. Originally proposed by the French Government, the 55-member EBRD began operations on April 30, 1991. Its stated purpose is to catalyze the growth of the private sector and to improve the infrastructure in Central and Eastern Europe and the former Soviet Union. Following the dissolution of the Soviet Union in late 1991, the Baltic states (Estonia, Latvia, and Lithuania) and the former Soviet republics individually applied for membership. At present, all these countries except Georgia are members. Georgia's application is currently under review.

EBRD claims a successful first year. On April 30, 1992, the bank's assets reached approximately $1.3 billion, or 10.9 percent of its $11.9 billion capital subscription. (For comparison, the total assets of the International Bank for Reconstruction and Development—the World Bank—amounted to $125 billion at the end of fiscal year 1991.) During 1991, EBRD successfully launched its first public bond issue of $600 million, and it plans to borrow a further $1.1 billion during 1992. Against a planned operating loss of $46.8 million during 1991, EBRD posted actual losses of only $8.5 million.

During the 12-month period ending on April 30, 1992, EBRD's loans to the eligible countries amounted to $675.1 million and equity investments in these countries totalled $70.1 million. The following tabulation shows the distribution of EBRD's loans and investments by countries in millions of dollars:

	Loans	*Equity investments*
Bulgaria	48.0	0.0
Czech and Slovak Federal Republic (CSFR)	0.0	64.8
Hungary	188.6	2.7
Poland	165.4	2.6
Romania	198.0	0.0
Former Soviet republics plus Baltic states	17.0	0.0
Regional	58.1	0.0
Total	675.1	70.1

All equity investments were made in the three Central European countries of CSFR, Hungary, and Poland. None of the investments made EBRD the majority shareholder. (EBRD's charter forbids the bank to participate in the management of the companies whose shares it acquires, even if the bank becomes the majority shareholder.) The regional projects indicated in the tabulation represent loans to Western commercial banks for the purpose of extending the credit lines of these banks to the region. EBRD also reported that its combined loans and investments of $745.2 million mobilized an additional $1.8 billion in the form of private investments and loans for the supported projects. To put EBRD's activities in perspective, outstanding loans by the World Bank and its subsidiary organizations to the countries also eligible for EBRD support totalled $8.1 billion at the end of fiscal year 1991 and equity investments in these countries amounted to $34 million.

Under the rubric of technical assistance, EBRD spent $32.5 million on 68 projects during its first year of operation. These projects included studies on privatization, infrastructure development and environmental protection, training in commercial banking and business administration, and conferences on reform and trade-related issues. Each eligible country has received some EBRD assistance. Some of the projects, like the preparation of the Danube Basin environmental program or the Baltic Sea environmental study, included more than one country.

To date, EBRD has established resident offices in Hungary, Poland, and Russia. It has adopted policies on lending and investment, procurement, infrastructure development, and environmental protection. The bank's basic requirement for extending loans and making equity investments is that the supported project should be expected to show profit and result in products or services that are internationally competitive. The bank has developed strategies for achieving its goals in Albania, the Baltic states, Bulgaria, CSFR, Hungary, Poland, and Romania. It has adopted a short-term action plan for the former Soviet area.

According to EBRD's President Jacques Attali, total loans and equity investments will reach $1.8 billion during 1993 and $3.6 billion during 1994. The EBRD wants to encourage commercial banks and businesses in Western Europe, the United States, and Japan to invest $120 billion in the countries eligible for its support before the end of the decade.

Although all analysts agree that EBRD plunged dynamically into the execution of its mandate, the new development bank has not escaped criticism. Some analysts suggest that EBRD is a waste since existing multilateral organizations, primarily the World Bank and its subsidiaries, could have accommodated the former Soviet bloc's needs without creating yet another international bureaucracy. But EBRD officials argue that the bank is uniquely qualified to aid development in the former Soviet bloc for two reasons. First, EBRD is the only multilateral development organization that closely monitors and makes assistance contingent upon the creation and effective operation of democratic institutions in the former communist states. Second, development organizations with a global scope have neither the resources nor the ambition to foster European integration. The EBRD is currently studying the possibility of a unified European energy and transportation system, and it promotes the adoption of continent-wide environmental standards. The bank is also preparing the three Central European states for EC membership by helping them develop EC-style commercial and banking practices.

Some critics charge that rather than supporting the region's nascent private sector, EBRD is too willing to direct funds toward the region's governments. The bank's charter prescribes that no more than 40 percent of the lending and equity investment may be channeled into the public sector of an eligible country by the end of the bank's second year of operation. According to EBRD's statistics, the state sectors of Bulgaria, Hungary, and Romania have received more than the targeted maximum share. The ratio of total capital extended to private and public projects was nearly 50-50 during the first year of operations.

Critics also find fault with the bank's definition of the private sector. According to the bank's guidelines, any enterprise that functions in the form of a business organization, e.g. a joint-stock company, can qualify as a private firm, regardless of how large a stake the state holds in it. This means that EBRD qualified some predominantly state-owned companies as private ones in its statistics. In defense of their policy, EBRD officials say that the bona fide private sector is not yet large enough in the eligible countries to absorb the bank's resources in a profitable way. Bank official maintain that if EBRD pumped money into purely private projects without regard to profitability, it would be accused of financial imprudence. EBRD officials also assert that the development of infrastructure, such as transportation and telecommunications, is a precondition for making private ventures profitable in the countries eligible for bank support. Since infrastructure assets are and will remain in government hands in the eligible countries, funds extended for their expansion and modernization will continue to tilt EBRD statistics in favor of the public sector for an indeterminate period.

Several U.S. companies and business organizations are involved in projects that enjoy EBRD support: General Motors Hungary (planning to build 15,000 cars and 200,000 engines per year), Parker Drilling Co. (planning to build three oil-drilling rigs in Western Siberia), a consortium that includes GTE (planning to upgrade telecommunications in Moscow), and the Polish-American Enterprise Fund (planning to construct a refrigeration plant in Poland.) Total loans for projects in which there is U.S. participation amount to $81 million, or to 11 percent of EBRD's total capital commitment reported for the first year.

With 10.0 percent of the shares, the United States is the largest individual shareholder among the 55 countries that subscribe to EBRD's $11.9 billion capital pool. The EC countries control 51.0 percent of the bank's capital. (For details on the organization of EBRD, see *IER*, April 1991.)

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STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1989-February 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

				1991								1992	
Country	1989	1990	1991	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	2.6	1.0	-1.9	-9.6	2.4	6.8	-0.5	2.2	0	-3.3	-7.5	-8.6	7.0
Japan	6.2	4.5	2.2	-0.5	-2.7	1.3	-4.2	5.8	-0.9	0	-14.9	-9.1	-6.5
Canada	2.0	0.3	-0.9	-1.2	-6.4	-3.3	-1.0	-2.2	0	-1.1	-1.1	1.1	10.5
Germany	5.3	5.9	3.3	0.6	8.4	-4.7	-1.3	18.3	-5.7	-1.0	-13.8	10.5	(1)
United Kingdom	0.3	-0.6	-3.0	-1.1	-4.4	4.2	-0.6	1.1	8.2	-5.5	-4.4	-14.8	(1)
France	3.7	1.3	0.4	1.0	3.1	2.0	-1.7	-15.6	14.7	-8.1	-13.8	24.9	(1)
Italy	3.9	-0.6	-2.3	3.9	-3.2	-9.1	5.2	51.7	-3.1	25.6	-31.3	27.2	(1)

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 15, 1992.

Consumer prices, by selected countries and by specified periods, January 1989-March 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

				1991								1992			
Country	1989	1990	1991	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States	4.8	5.4	4.2	3.5	2.1	2.7	3.6	4.5	0.9	4.5	2.6	2.8	0.9	3.5	6.2
Japan	2.3	3.1	3.3	4.3	1.0	2.0	3.8	-3.9	7.7	9.0	-0.9	0.1	-1.5	0	-1.6
Canada	5.0	4.8	5.6	11.3	2.9	1.8	0.2	0	-2.8	2.9	0	(1)	1.0	1.9	(1)
Germany	2.8	2.7	3.5	1.4	3.5	7.6	3.4	3.3	3.3	5.5	1.1	(1)	0	6.6	(1)
United Kingdom	7.8	9.5	5.9	4.2	4.1	4.2	4.1	3.3	3.7	5.3	5.9	4.3	3.3	4.0	3.7
France	3.5	3.4	3.1	2.3	2.2	3.1	3.6	2.9	3.7	4.2	3.7	(1)	2.4	3.5	(1)
Italy	6.6	6.1	6.5	6.9	6.2	5.7	5.7	5.2	5.7	7.2	4.5	4.9	7.7	-0.1	5.7

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 15, 1992.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, January 1989-April 1992

				1991					1992				
Country	1989	1990	1991	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States	5.3	5.5	6.7	6.8	6.9	6.9	6.9	7.1	7.2	7.1	7.3	7.3	7.2
Japan	2.3	2.1	2.1	2.2	2.2	2.1	2.2	2.2	2.1	2.1	2.0	2.1	2.0
Canada	7.5	8.1	10.3	10.4	10.3	10.3	10.3	10.3	10.7	10.4	10.6	11.1	11.0
Germany	5.7	5.2	4.4	4.4	4.4	4.6	4.4	4.4	4.4	4.4	4.4	4.4	4.5
United Kingdom	7.1	6.9	8.9	9.4	9.8	10.2	10.3	10.5	10.2	10.1	10.3	10.3	10.4
France	9.6	9.2	9.8	10.0	10.3	10.2	10.3	10.3	10.1	10.1	10.1	10.1	(4)
Italy[2]	7.8	7.0	6.9	6.7	6.9	(3)	(3)	(3)	7.0	7.0	(3)	(3)	(3)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1989-1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, April 1992.

Money-market interest rates,[1] by selected countries and by specified periods, January 1989-May 1992

(Percentage, annual rates)

				1991						1992					
Country	*1989*	*1990*	*1991*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*I*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*
United States	9.3	8.3	5.9	5.8	5.0	5.5	5.3	4.9	4.4	4.2	4.5	4.1	4.4	4.0	3.8
Japan	5.3	6.9	7.5	7.6	7.2	7.6	7.4	7.3	7.0	6.8	6.8	6.8	6.8	(2)	(2)
Canada	12.2	13.0	9.0	8.7	7.8	8.6	8.3	7.7	7.5	7.3	7.3	7.3	7.5	(2)	(2)
Germany	7.1	8.5	9.2	9.2	9.5	9.2	9.2	9.4	9.6	9.6	9.5	9.6	9.7	(2)	(2)
United Kingdom	13.9	14.8	11.5	10.7	10.6	10.2	11.5	10.5	10.8	10.5	10.6	10.4	10.8	(2)	(2)
France	9.4	10.3	9.6	9.5	9.6	9.4	10.4	9.5	10.1	9.9	9.9	9.9	10.0	(2)	(2)
Italy	12.8	12.7	12.1	11.8	12.0	11.7	11.5	11.9	12.6	12.2	12.1	12.2	12.3	(2)	(2)

[1] 90-day certificate of deposit.

[2] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Federal Reserve Statistical Release*, June 15, 1992 *Economic and Energy Indicators*, Central Intelligence Agency, May 15, 1992.

Effective exchange rates of the U.S. dollar, by specified periods, January 1989-May 1992

(Percentage change from previous period)

				1991					1992					
Item	*1989*	*1990*	*1991*	*III*	*IV*	*Oct.*	*Nov.*	*Dec.*	*I*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*
Unadjusted:														
Index[1]	91.3	86.5	85.5	87.6	84.0	85.3	83.8	82.8	84.8	83.0	84.8	86.8	86.4	85.5
Percentage change	6.4	-5.3	-1.2	-.1	-4.1	-.9	-1.7	-1.2	.8	.2	2.1	2.3	-.4	-1.0
Adjusted: Index[1]	91.8	88.1	87.0	88.4	85.6	86.9	85.4	84.4	86.7	84.6	86.4	88.6	88.2	87.3
Percentage change	6.8	-4.0	-1.2	-.1	-3.2	-1.0	-1.7	-1.2	1.3	.2	3.1	2.5	-.4	-1.0

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, June 1992.

Trade balances, by selected countries and by specified periods, January 1989-April 1992

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1989	1990	1991	1991 IV	1991 Nov.	1991 Dec.	1992 I	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.
United States[1]	-109.1	-101.7	-66.2	-66.8	-50.0	-71.9	-59.6	-69.6	-39.5	-67.0	-83.6
Japan	77.4	63.5	103.3	119.6	112.8	129.6	(3)	123.6	140.4	(3)	(3)
Canada	6.0	9.4	6.4	3.2	2.4	7.2	(3)	10.8	(3)	(3)	(3)
Germany[2]	71.8	57.3	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-40.4	-33.4	-17.9	-18.0	-20.4	-15.6	(3)	-25.2	-22.8	(3)	(3)
France	-7.0	-9.1	-5.3	2.0	1.2	-9.6	(3)	8.4	8.4	(3)	(3)
Italy	-13.0	-11.7	-12.9	-12.0	-13.2	-6.0	(3)	-2.4	-15.6	(3)	(3)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

[2] Imports, c.i.f. value, adjusted.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 15, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, June 18, 1992

U.S. trade balance,[1] by major commodity categories, and by specified periods, January 1989-April 1992

(In billions of dollars)

Country	1989	1990	1991	1991 IV	1991 Nov.	1991 Dec.	1992 I	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.4	2.1	1.8	5.1	1.6	1.9	1.6	1.5
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	10.0	-3.3	-3.2	-8.1	-3.0	-2.2	-2.9	-3.3
Manufactured goods	-103.2	-90.1	-67.2	-21.5	-6.0	-6.2	-14.5	-5.7	-3.9	-4.9	-5.8
Selected countries:											
Western Europe	-1.3	4.0	16.1	3.3	1.7	1.1	6.6	1.7	2.6	2.3	.6
Canada[2]	-9.6	-7.7	-6.0	-2.1	-.9	-.9	-1.4	-.2	-.7	-.5	-.6
Japan	-49.0	-41.0	-43.4	-12.4	-3.4	-4.4	-10.8	-3.8	-3.0	-4.0	-4.2
OPEC (unadjusted)	-17.3	-24.3	-13.8	-2.5	-.8	-.6	-1.5	-.7	-.4	-.4	-.3
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$17.52	$18.04	$16.55	$14.59	$14.85	$14.42	$14.46	$15.49

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

[2] Beginning with February 1988, figures include previously undocumented exports to Canada.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, June 18, 1992.

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